MULTIMEDIA UNIVERSITY

STUDENT ID NO

MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 1, 2022/2023

DAU5014 – AUDITING 1

(All Sections / Groups)

23 NOVEMBER 2022
9.00 a.m. – 12.00 p.m.
(3 Hours)

INSTRUCTIONS TO STUDENT

1. This question paper consists of 6 pages with 4 questions.
2. Write your answers in the answer booklet provided.
3. Answer ALL questions.

QUESTION 1

Part A

A month before the financial statement audit, the Director of Wintex Sdn. Bhd. had an important meeting with the company's Accounts Manager regarding the financial report prepared for the year ended on 30 June 2022. The financial report shows a huge sum of expenditures was incurred due to high purchases and resulted in net loss for the year. In order to show a net profit in the financial report, the Director, who is also the major shareholder of Wintex Sdn. Bhd. decided to transfer 20% of the company's purchases to the following year by altering some of its purchasing dates incurred in June 2022 to July 2022 after negotiation with its suppliers.

Required

(a) Define the meaning of information asymmetry and conflict of interest. (5 marks)

(b) Assume you are one of the shareholders in Wintex Sdn. Bhd. with some knowledge in accounting. Do you agree with the decision made by the Director of Wintex to transfer 20% of the purchases in the current financial year to next financial year? Briefly explain your answer with any **TWO (2)** relevant reasons. (3 marks)

(c) State any **TWO (2)** reasons why a financial report prepared by the management should be audited. Provide an example for each reason. (4 marks)

(d) Briefly describe how the auditor's verification on a company's financial statement benefits both the company owners and the manager. (2 marks)

Part B

(a) "Financial Reporting Act 1997 set up the Financial Reporting Foundation (FRF) and the Malaysian Accounting Standard Board (MASB). MASB is an independent authority to develop and issue accounting and financial reporting standards in Malaysia."

Required

Name the **TWO (2)** accounting standards issued by MASB. (2 marks)

(b) "Approved company auditor" means a person who has been approved under Section 263 of the Companies Act 2016, as an auditor and whose approval has not been revoked. However according to Section 264 of the same Act, not all auditors are qualified to be appointed as company auditor to some companies due to several conditions."

Required

Briefly describe any **FOUR (4)** conditions that prohibit an auditor to be appointed as a company's auditor. (4 marks)

Continued...

(c) "Under Section 266 subsection 3 of the Companies Act, 2016 states that an auditor has the duty to form an opinion to each of the following matters reported to the shareholders of the holding company and its subsidiaries' accounting and other records relating to those financial statements while conducting the financial statement audit."

Required

State the **THREE (3)** types of matters that an auditor is required to form an opinion when conducting a financial statement audit. (3 marks)

(d) Besides the date of commencement of a new audit firm, list any other **TWO (2)** details that are required to be provided to the Companies of Commission in Malaysia (CCM) for registration within thirty days from the date of commencement of business. (2 marks)

(Total: 25 marks)

QUESTION 2

Part A

(a)

Engagement letter formalises the arrangement reached between an auditor and a client and it serves as a contract, outlining the responsibilities of both parties and preventing misunderstandings between the parties.

Required

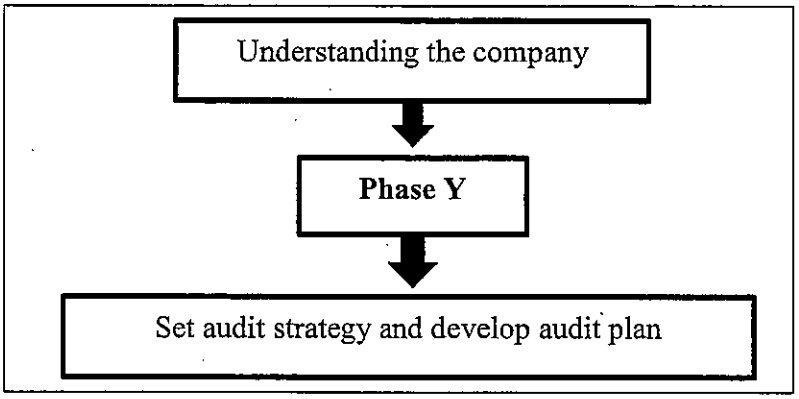
Based on the description above,

i. Name the audit phase in which engagement letter is to be prepared in the financial statement auditing process. (1 mark)

ii. State and briefly describe the **FIVE (5)** contents that should be included in engagement letter. (10 marks)

Continued...

(b)



The above figure shows a part of the audit phases. It is crucial for an auditor to understand the company's environment and internal control before performing a financial statement audit.

Required

i. Explain the purpose for auditors to understand the company's environment and internal control. (1 mark)

ii. List any **THREE (3)** categories of information that are essential to obtain by the auditor in understanding a company. (3 marks)

iii. Name **Phase Y** shown in the partial audit phases above. (1 mark)

Part B

(a) State **THREE (3)** reasons why auditor manages to obtain reasonable assurance, but not absolute assurance that material misstatements are detected. (3 marks)

(b) Provide any **ONE (1)** example of fraudulent financial reporting. (1 mark)

Continued...

Part C

(a) Given below are the audit findings described for companies, A, B and C.

Companies	Details of the findings summarised
A	The company faced a litigation lawsuit from a customer related to one of its major products, Xenadol due to its substance being believed to affect the health of those consume and resulting in hospitalisation. Currently, the court case is still in progress and the management believed that the company has a higher chance of winning the case due to lack of evidence. However, this lawsuit may also cause the company to compensate RM10 million if the company is found guilty.
B	The company applied cash basis instead of accrual basis accounting in recording its daily transactions and refuse to amend its financial statements. The company's management insisted that the cash basis accounting is suitable for presenting its financial report and accurately shows the company's revenue and net profit. However, the auditor disagreed because the differences in the revenue and net profit computed after comparing both basis were very significant.
C	The sales invoices for the company's copy for the past five months were destroyed due to a fire incident incurred in the office. The company's computer was also destroyed and there is no extra backup for the softcopy of the same invoices. As result, the auditor was unable to obtain sufficient audit evidence and was unable to form an opinion on the financial statement.

Required

Based on the scenarios given, state the appropriate type of audit opinion by an independent auditor based on the table below: (Note: Write your answer using the table below.)

No.	Types of audit opinion
i.	
ii.	
iii.	

(3 marks)

(b) Briefly explain the importance of audit report date to the audited financial statement users.
(2 marks)

(Total: 25 marks)

Continued...

QUESTION 3

Part A

En Yusri, an external auditor, was appointed by Fadrus Retails and Wholesales Berhad to conduct financial statement audit for its latest financial report. In the third paragraph of the auditor's responsibilities section in the auditors' report, it is generally stated that "*the auditor communicates to those charged with governance the planned scope and timing of the audit as well as any significant findings, including significant deficiencies and material weaknesses in internal control.*"

Required

(a) Based on the statement above, identify **THREE (3)** general weaknesses that may exist in a company's internal control. Provide **ONE (1)** example for each weakness. (6 marks)

(b) Provide any **THREE (3)** components of internal control. (3 marks)

(c) List the **THREE (3)** sequential steps applied by an auditor to assess control risk in the company. (3 marks)

(d) Assume En. Yusri was also assigned to conduct an operational audit for Fadrus Retails and Wholesales Berhad. Based on each description below, name the control procedures monitored by En. Yusri.

No.	Descriptions	Types of control procedures
i.	En. Yusri reviews the general controls and application controls of the information software system used in financial reporting.	
ii.	En Yusri ensures that the company installed a good security system complete with CCTVs, surveillance cameras and guard monitoring room workings 24 hours in the company's warehouse as described by management.	

(2 marks)

Part B

"Reliability refers to whether a particular type of evidence can be relied upon to signal the true state of an assertion or audit objective. The reliability of audit evidence is influenced by its nature and its source. One of the factors an auditor should consider when assessing the reliability or validity of the evidence is **independence of the source of documents**".

Required

i. Describe the meaning of "**independence of the source of documents**" by providing **ONE (1)** example. (3 marks)

Continued...

ii. Identify and elaborate the remaining **THREE (3)** factors that should be considered when assessing the reliability of the audit evidence. (8 marks)

(Total: 25 marks)

QUESTION 4

Part A

(a) Briefly describe each of these component audit risks:

i. Inherent risk (3 marks)
ii. Control risk (2 marks)
iii. Detection risk (2 marks)

(b) "Detection risk cannot be reduced to zero because the auditor usually does not examine all of a class of transactions, account balance, or disclosure and because of **other factors**."

Required

Determine the **THREE (3)** factors mentioned in the above sentence. (3 marks)

(c) What is the effect of high control risk towards detection risk. (2 marks)

(d) Briefly explain the relationship between materiality and audit risks. (5 marks)

Part B

(a) Describe the differences between internal auditing and external auditing based on the three characteristics below:

Note: You may use the table format below to write your answer.

No.	Characteristics	Internal Auditing	External Auditing
i.	Objective		
ii.	Independence		
iii.	Primary concern		

(6 marks)

(b) Provide any **TWO (2)** benefits if an external auditor request assistance from the company auditee's internal auditor in conducting its audit. (2 marks)

(Total: 25 marks)

End of Paper